



South Dakota Retirement System

The South Dakota Retirement System

NCSL Cross-Branch Invitational Seminar on Pension Topics

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South Dakota Retirement System (SDRS)

December 10, 2019



SDRS Objectives

- Objectives:
 - Manage the plan with fixed contributions
 - Provide appropriate and adequate benefits
 - Fully funded
- Objectives achieved by following:
 - A disciplined approach to plan management
 - Best practices in benefit design, funding, disclosure, and risk measurement and management



Elements Essential to Meeting Objectives

- **Variable features** that adjust benefits to changing market conditions and plan experience
- **Funding thresholds** that require immediate actions
- Effective and responsible **governance**



Our Scorecard

- A fixed budget for retirement benefits, automatically adjusting benefits, and specific minimum funding measures
- Benefits meet specific income replacement adequacy objectives
- Risk quantified and action plan developed for additional actions when and if needed

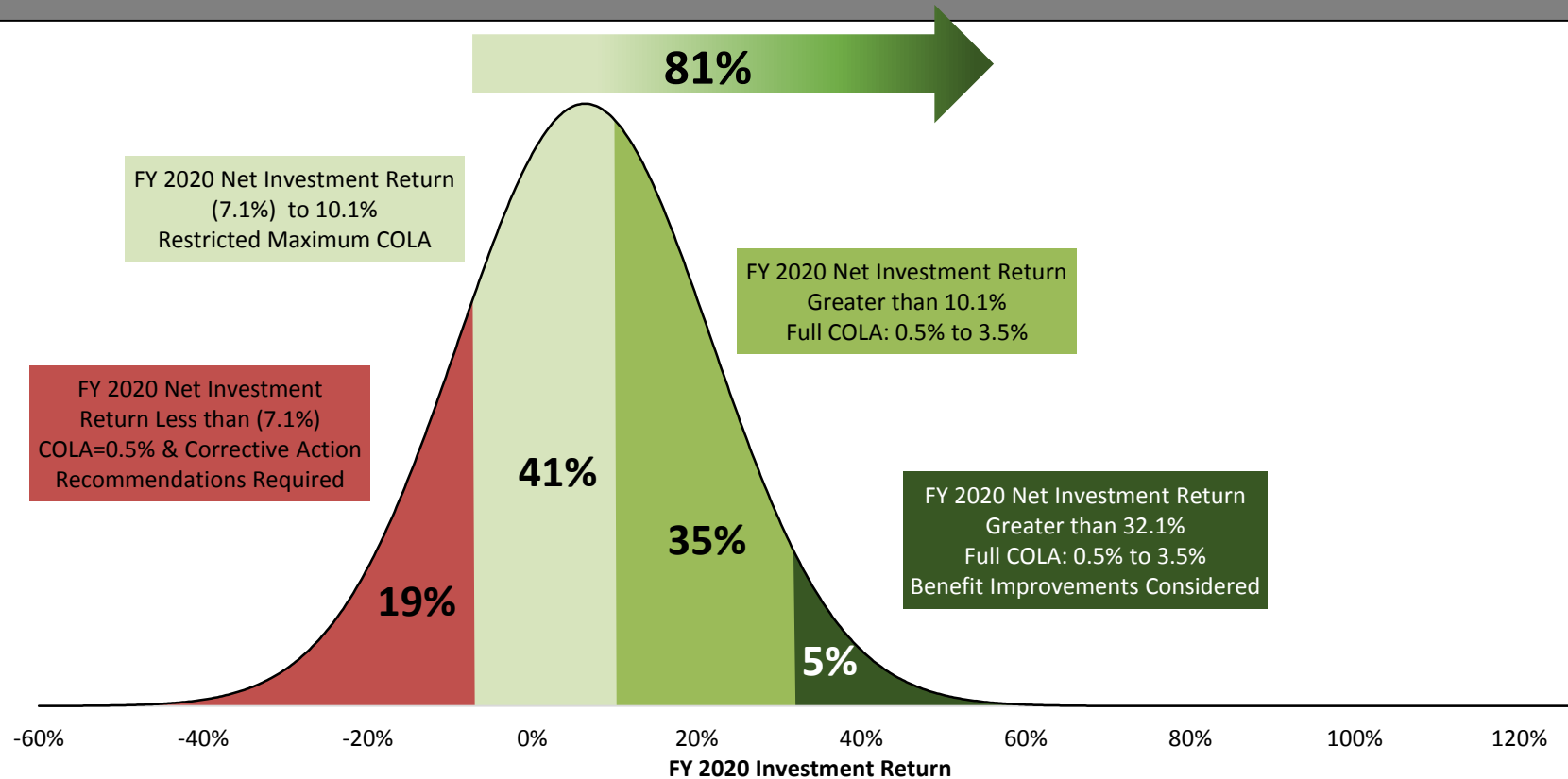


Additional Thoughts

- Fixed contributions are a prudent financial decision
- SDRS has been managed and has evolved based on this funding discipline
- Additional risk measures must be developed and communicated to provide transparent disclosure of the likelihood of meeting the funding policies and benefit goals of SDRS
- Consider equitable benefits for shorter-service members – possibilities include refunding a portion of employer contributions and indexing deferred benefits



Projected Future COLA Ranges: 2021 Benchmark Asset Allocation Statistics



- Ignoring FY20 returns to date, the likelihoods for July 2021 COLA ranges, which are primarily driven by FY20 investment returns, are:
 - 19% likelihood that a 0.5% COLA will be payable and additional Corrective Action recommendations will be required
 - 41% likelihood that the COLA will have a restricted maximum (CPI-W between 0.5% and the restricted maximum)
 - 40% likelihood that the COLA will be CPI-W between 0.5% and 3.5%, with a 5% likelihood of considering benefit improvements

* Before consideration of liability gains/losses. Likelihoods based on SDIC 2019 **benchmark** asset allocation investment portfolio statistics (mean = 6.29%, standard deviation = 15.4%).



SDRS Board of Trustees' Funding and System Management Policies

Managing SDRS based on Fixed, Statutory Contributions

FUNDING OBJECTIVES	CONSIDERATION OF BENEFIT IMPROVEMENTS	REQUIRED CORRECTIVE ACTION RECOMMENDATIONS
<ul style="list-style-type: none"> • A Fair Value Funded Ratio (Fair Value of Assets ÷ Actuarial Accrued Liability*) of 100% or more • A fully funded system with no Unfunded Liabilities under the Entry Age Normal Cost method • Actuarially determined benefits that are variable and can be supported by fixed, statutory contributions 	<ul style="list-style-type: none"> • A Fair Value Funded Ratio of over 120% is required before considering benefit improvement recommendations • The cost to fully fund the recommended benefit improvement is also limited to the net accumulated actuarial investment gains and losses, with gains recognized over a five-year period and losses recognized immediately • After fully funding the cost of the benefit improvement, the Fair Value Funded Ratio must be at least 120% and all funding objectives must continue to be met • Proposed benefit improvement must be consistent with both the Board's long-term benefit goals and sound public policy with regard to retirement practices 	<ul style="list-style-type: none"> • The annual report to Governor and Retirement Laws Committee will include corrective action recommendations if SDRS does not meet both of the following conditions: <ul style="list-style-type: none"> • Fixed, statutory contributions sufficient to meet or exceed the minimum actuarial requirement to support benefits, and • Fair Value Funded Ratio of 100% or more • The report shall include recommendations for the circumstances and timing for any corrective action, including benefit changes, to improve the funding conditions
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Summary of Our Focus

- Determine our mission, values, goals, and priorities and communicate those to all stakeholders to build support for, and confidence in the system
- Establish guideposts, measure results, and assess progress
- Sound governance by Board that:
 - Takes leadership responsibility for success of system
 - Actively deals with stakeholder concerns
 - Follows an informed, transparent, and collaborative decision-making process
- Support sustainability initiatives and avoid political activities
- On-going risk assessment that identifies key risks, establishes risk thresholds, and establishes actionable mitigation plans when thresholds are crossed